

05 MAY 2021

Fitch Rates Orbia's Sustainability-Linked Senior Notes 'BBB'

Fitch Ratings - Rio de Janeiro - 05 May 2021: Fitch Ratings has assigned a 'BBB' rating to the proposed senior unsecured sustainability-linked notes due 2026 and 2031 to be issued by Orbia Advance Corporation, S.A.B. de C.V.. Proceeds from the senior notes will be used for the payment in full or a portion of its 8.12% peso denominated notes due 2022, and 4.875% of its USD notes due 2022, as well as for general corporate purposes. Fitch currently rates Orbia's Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) 'BBB'/Stable.

The sustainability-linked securities framework establishes a goal of reducing Sulfur Oxide (SOx) Emissions by 60% by 2025 on the 2031 notes, and by 44% by 2023 on the 2026 notes, as compared to the 2018 baseline year. These targets are subject to certain exclusions related to acquisitions. If Orbia fails to meet the targets and conditions there could be an interest step up of 25 basis points.

Key Rating Drivers

Strong Business Position: Orbia has a strong business position in polyvinyl chloride (PVC) pipes throughout Latin America and Europe, as well as in fluorspar globally, and in the data communication and precision agriculture segments. The company is a large producer of PVC resins and pipes and is one of the world's largest producers of fluorspar, hydrofluoric acid, high-density polyethylene (HDPE) water and fiber optic cables (for building and infrastructure, and irrigation systems).

Orbia's strong market positions coupled with vast vertical integration, which extends from the salt mine and ethylene cracker in its vinyls division, and from the fluorspar mine in Fluor to the final consumer, provide it with increased business flexibility and expanded cross-selling opportunities. These features support long-term revenue and cash flow expansion and provide the company with relatively high operating margins within the petrochemical industry.

Diversification Strategy: Orbia's ratings reflect its product and geographic diversification, with an increasing share of specialty products. The company's presence in different sectors and regions have helped it maintain relatively stable EBITDA margins of between 19%-20% during the past four years. Orbia's revenues were spread relatively evenly among Europe (35%), North America (30%) and South America (23%) during 1Q21.

Mexico's domestic market represented only around 10% of the company's revenues, reducing its exposure to ongoing political volatility in the country. Orbia still has a large exposure to volatile industries such as infrastructure and construction, which corresponded to more than 60% of its revenues. The strategy of focusing on added-value products helps to partially offset the pure commodity cycle.

Favorable Industry Dynamics: Orbia should benefit from the current favorable outlook for the Polymer Solutions segment and for Building & Infrastructure (mostly in U.S.). Steady volume growth should sustain

revenue expansion while the recent quarter of improvements on cost base and working capital needs will benefit operating margins and cash flow generation. Fitch's consolidated EBITDA margins should range around 20% in the next two years.

Limited Pressure on FCF: Orbia has a track record of solid FCF generation throughout petrochemical cycles. Under Fitch's base case scenario, Orbia's EBITDA and cash flow from operations (CFFO) for 2021 are expected to be approximately USD1.4 billion and USD0.6 billion, respectively, while FCF should be neutral. This scenario includes a recovery in capex level that were reduced during 2020 and the company's shareholder friendly dividends policies. For the year, Fitch considers dividends outflows of around USD354 million (including minority interests). For 2022 and 2023, FCF is expected to recover to around USD164 million and USD236 million, respectively.

Leverage to Remain Adequate: In absence of a major strategic investment and/or acquisition, Orbia's ongoing improvements in operating cash flow generation should bring its leverage ratios in line with the rating headroom. Fitch projects Orbia's adjusted net leverage to reach 2.6x during 2021, 2.4x in 2022 and 2.32x in 2023. As of Dec. 31, 2020, Orbia's adjusted net leverage was 2.8x. Fitch's leverage calculation includes USD525 million of LOC, as well as other standard adjustments, such as the payment of dividend distributions to minority shareholders.

Derivation Summary

Orbia is well positioned relative to peers such as Alpek, S.A.B. de C.V. (BBB-/Stable) and Braskem S.A. (BB+/Stable) in terms of the degree of product and geographic diversification. Backward integration of Orbia's PVC and fluorite businesses is another factor that distinguishes Orbia from companies in the chemicals sector.

Integration reduces the volatility of cash flows as prices of final products tend to be more stable. Orbia's product portfolio has some specialized characteristics, resulting in some margin uplift from pure commodity chemical producers. Orbia's ratings are tempered by the company's still-important exposure to volatile industries such as infrastructure and construction, as well as by its high leverage relative to peers. Orbia has shown more solid and constant free cash generation compared with Alpek and Braskem.

Westlake (BBB/Negative), the third-largest global chlor-alkali and PVC producer, has added scale to its PVC resin and vinyl-based building products through an acquisition. Although Orbia's PVC production is smaller in scale compared with Westlake's, it benefits from the backward integration and diversification of its PVC and fluorite businesses, which have a relatively higher component of finished products.

Key Assumptions

Fitch's Key Assumptions Within the Rating Case for the Issuer:

--Revenue growth 9% and 3% in 2021 and 2022, reflecting the stronger performance of Vestolit and Wavin business;

--EBITDA margin moving around 20%;

--Capex around USD385 million in 2021 and 2022;

--Dividends around USD200 million in 2021 and in 2022;

--Strong liquidity position and successful liability management strategy with no exposure to refinancing risks.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Capital spending discipline that generates consistent positive FCF margins above 4% and net adjusted debt/operating EBITDA consistently below 1.5x could eventually benefit the ratings in the long term.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Net adjusted leverage remaining above 2.5x in the long term;

--A change in fluorspar dynamics globally or in regulation as well as a global recession, which affects the company's profitability, cash flow and leverage levels, including expectations of EBITDA margins consistently below 15% and meaningful erosion of FCF.

Best/Worst Case Rating Scenario

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

Liquidity and Debt Structure

Strong Liquidity: Orbia's solid liquidity and manageable refinancing risk profile remain as key credit considerations. As of March 31 2021, the company had USD713 million of cash and marketable securities and USD4.1 billion of total debt, of which USD1.1 billion was due in the short term. Fitch's short-term debt includes USD0.5 billion of Letter of credit (LOC). Orbia has a strong access to local and international credit market and financial flexibility is further enhanced by a USD1 billion of undrawn revolving credit facility due to June 2024.

Fitch expects that Orbia will remain disciplined with its liquidity position and will maintain its proactive approach in liability management to avoid exposure to refinancing risks. Currently, the company has some debt maturity concentration in the next 18 months, with USD634 million in due in the short term (including USD146 million of local notes) and USD772 million due in 2022 (USD750 million of unsecured notes due 2022). Remaining debt balance has longer maturity, with unsecured notes due 2027 (USD500 million), 2044 (USD750 million) and 2048 (USD500 million). As of March 31, 2021, about 83% of total debt was denominated in U.S. dollars.

Date of Relevant Committee

29 April 2021

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Fitch Ratings Analysts

Debora Jalles

Director

Primary Rating Analyst

+1 312 606 2338

Fitch Ratings Brasil Ltda. Av. Barão de Tefé, 27 – Sala 601 Saúde Rio de Janeiro, RJ 20220-460

Rogelio Gonzalez Gonzalez

Director

Secondary Rating Analyst

+52 81 4161 7034

Joe Bormann, CFA

Managing Director

Committee Chairperson

+1 312 368 3349

Media Contacts

Elizabeth Fogerty

New York

+1 212 908 0526

elizabeth.fogerty@thefitchgroup.com








Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR
-------------	--------	----------	-------

Orbia Advance Corporation, S.A.B. de C.V.			
---	--	--	--

ENTITY/DEBT	RATING	RECOVERY	PRIOR
• senior unsecured	LT	BBB	New Rating

RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

[Corporate Rating Criteria \(pub.21 Dec 2020\) \(including rating assumption sensitivity\)](#)

[National Scale Rating Criteria \(pub.22 Dec 2020\)](#)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 [\(1\)](#)

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

Orbia Advance Corporation, S.A.B. de C.V. EU Endorsed, UK Endorsed

Disclaimer

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK:

[HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, THE

FOLLOWING [HTTPS://WWW.FITCHRATINGS.COM/RATING-DEFINITIONS-DOCUMENT](https://www.fitchratings.com/rating-definitions-document) DETAILS FITCH'S RATING DEFINITIONS FOR EACH RATING SCALE AND RATING CATEGORIES, INCLUDING DEFINITIONS RELATING TO DEFAULT. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR WHICH THE LEAD ANALYST IS BASED IN AN ESMA- OR FCA-REGISTERED FITCH RATINGS COMPANY (OR BRANCH OF SUCH A COMPANY) CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH RATINGS WEBSITE.

Copyright

Copyright © 2021 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the

risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

Endorsement policy

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.